



Suppliers

let's make a
better
world



Suppliers

We buy products and services - such as IT equipment, cables, design and disposal services - from thousands of suppliers worldwide. In the 2006 financial year, we spent over £4 billion on procurement.

In all our dealings with suppliers we are committed to behave according to the principles of fair and ethical trading. Our spend enables us to influence suppliers' environmental and labour standards.

Here we discuss:

- Supplier selection - choosing our suppliers
- Supplier development - working in partnership with our suppliers
- Supplier payment - paying our suppliers promptly and as agreed
- CSR and suppliers – applying human rights and environmental standards in our supply chain
- Supplier diversity – sourcing from diverse suppliers.

Supplier selection

BT operates a fair procurement process - administering our tendering and contracting procedures in good faith.

Our supplier selection process seeks to ensure that high safety, environmental and social standards are met. We value the diversity of our suppliers. They do not have to be existing customers of BT.

[Our Purchasing Principles](#) provide a framework to ensure that we act in an ethically and commercially responsible way in our dealings. Adhering to these principles is an integral part of our procurement process.

Authority to form a contract is restricted to our authorised procurement professionals. They are trained to world-class standards and to apply BT's Purchasing Principles.

Supplier development

We use a range of tools to assess our suppliers and to encourage continual improvement. These range from basic desktop evaluations to sophisticated supplier capability assessments and partnership evaluation processes (PEM).

A PEM evaluation is only undertaken where both parties agree that it will be mutually beneficial. The evaluation increases the supplier's understanding of how to work in partnership with BT. This benefits us and helps the supplier when they compete for non-BT work.

We share learning and expertise in quality, the environment, diversity and ethical trading with our suppliers.

In financial year 2006, we asked 2,000 suppliers to complete a questionnaire on how they feel BT behaves as a customer. This will provide an update on the views we sourced two years ago. The findings will be used in assessing the overall success of BT's relationship with suppliers – one of our key performance indicators.

Supplier payment

Our policy is to use our purchasing power fairly and to pay promptly and as agreed.

BT has a variety of payment terms with its suppliers. Payment terms for major contracts are agreed with the supplier when negotiating the contract. For Purchase Orders the payment terms are specified on our [Selling 2 BT website](#) under [general conditions](#).

The normal payment term is 42 calendar days from date of receipt of a due and valid invoice. BT makes payment on the next weekly payment run following expiry of this term.

We have produced a [Better Payment Practices document](#) that explains to suppliers how BT's Accounts Payable processes work.

The ratio, expressed in days, between the amounts invoiced to the company by its suppliers in the 2006 financial year and the amounts owed to its trade creditors at the end of the year was 39 days



CSR and suppliers

We seek to apply human rights and environmental good practice standards within our supply chain.

During the 2006 financial year we combined our policies on environment and human rights into one CSR programme.

Our strategy

CSR is a key measure in our procurement scorecard (accounting for 25% of the overall score).

We updated our CSR strategy and will now assess CSR risks associated with particular product categories (known as domains) as well as individual suppliers. During the year we assessed the CSR risks associated with each domain (eg desktop software, network terminating equipment, travel, waste and environmental services). Management of these risks is being incorporated into the procurement strategy for each domain. The assessment also included supplier diversity.

We intend to make CSR part of normal procurement practice. Our supplier questionnaires are now available to our buyers from our procurement portal and suppliers can input their questionnaire responses over the internet. Our processes have been automated to ensure follow up action is taken with suppliers as appropriate.

We surveyed some key suppliers to find out which CSR issues they see as important to them and to BT. Their responses have been used in the planning process for this report, see [Materiality](#).

Human rights and suppliers

We want to ensure the working conditions under which the products and services we purchase are produced meet the standards of the [Universal Declaration of Human Rights](#) (UNDHR) and the [International Labour Organisation](#) (ILO) Conventions.

Our Sourcing with Human Dignity (SWHD) initiative specifies the minimum standards we expect of our suppliers in the following areas:

- Child labour
- Cruel, harsh and inhuman treatment
- Forced labour
- Discrimination
- Freedom of association & collective bargaining
- Health & safety
- Wages
- Working hours
- Regular employment entitlements.

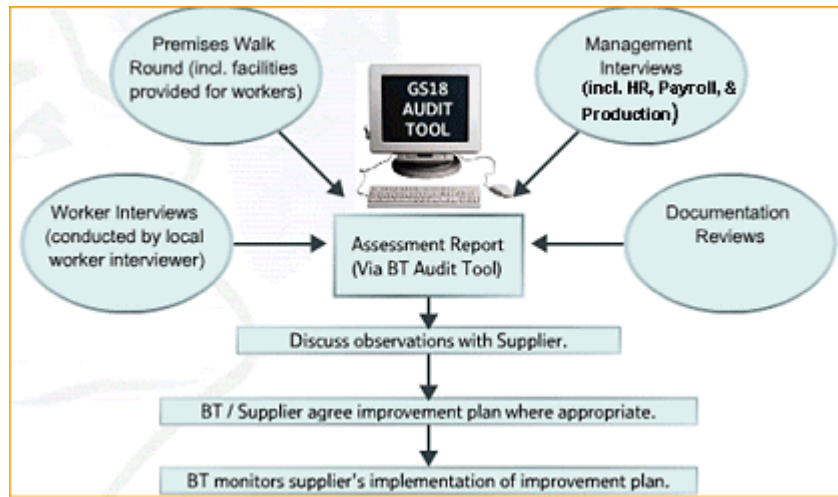
Find out more on [Sourcing with Human Dignity](#).

Methodology

For all new BT contracts, suppliers must sign a clause committing them to complete a risk-assessment questionnaire ([GS18](#)) on request, to let us carry out on-site assessments and to work with us to achieve our SWHD standards.

The questionnaire establishes the level of risk associated with the supplier. For contracts identified as high or medium risk we then determine what further action is needed. In some cases, we carry out an on-site assessment of the supplier's facilities or those of a subcontractor.





Assessments include worker interviews. Where possible, these are conducted by NGOs, independent assessors or academics. Interviewers always speak the worker's language and, where possible, will be of the same gender. Findings are reported back to management anonymously to protect the workers.

Where we identify shortfalls against our GS18 standard, an action plan is agreed with the supplier. See [Supplier assessments](#).

Supplier assessments

In the 2006 financial year, we completed five on-site assessments of suppliers against our Sourcing with Human Dignity (SWHD) standard.

We also worked with two suppliers to jointly assess five subcontractors in Mexico and China. Our goal was to share best practice with our suppliers and implement joint methodologies and coaching. The visit to Mexico has given us a better understanding of the CSR issues for the ICT industry there.

We revisited a supplier in China and jointly assessed four sub contractors. We saw improvements in living standards and health and safety since our previous visits. Our supplier is implementing SA8000 (a social audit standard) at its premises and within its supply chain. Further assessments are ongoing in China.

Our assessments use the following scoring system:

- *Improvement required* - progress is needed on at least 51 per cent of the aspects in that category
- *Some improvement required* - progress is needed on at least one aspect in that category.

The assessments focused on higher risk suppliers - so should not be taken as a representative sample of our supply chain.

We discuss the findings with the suppliers and have either agreed improvement plans (and are monitoring progress), or are still to agree plans following the most recent assessments.

Not all shortfalls represent major labour rights abuses. For example, some improvement required in the living wages category may mean that the supplier provides insufficient information about wages in their employment contracts, not that they are paying workers below the minimum wage.

To date, only one subcontractor has been found, upon re-assessment, to persistently allow serious shortfalls of the SWHD standard, including excessive and forced overtime and intimidation of workers. We stopped placing orders with that company. All other suppliers have been collaborative and tried to improve their performance.

Monitoring and improvements

Click on the icons below for data on BT's monitoring of Sourcing with Human Dignity and improvements achieved.



Sharing best practice with suppliers

In financial year 2006 we have focused on sharing best practice with our tier 1 (direct) suppliers. This includes carrying out joint assessments of subcontractors to share best practice, methodologies and joint coaching. We are working with the suppliers for our twenty-first century network (21CN) to understand management of labour standards in their supply chains.

We held a CSR event for 21CN and call centre suppliers to raise awareness of our CSR standards and their importance to BT. The event was an opportunity to share best practice examples on labour and environmental standards and hear from a range of experts. Forty five people attended and all participants rated the event good or very good.

BT is a member of the UK Government's Sustainable Development Task Force. We led the Sustainable Procurement Task Force to investigate sustainable purchasing policies for the public and private sectors.

We aim to share best practice with as wide an audience as possible and have spoken on CSR in procurement at conferences in the UK, Paris and China.

Supplier training

It is critical that our buyers have the awareness, knowledge and skills to successfully implement our standards and help suppliers improve their performance. Our training is being updated following the review of our CSR procurement strategy.

Training for buyers

All BT buyers are required to complete training on our human rights standard, including a short assessment. This explains the rationale behind the initiative, its key features and the buyer's role in its successful implementation.

We ran three training sessions attended by 52 buyers to help them understand the requirements of standards such as ISO14001, and SA8000.

Our procurement CSR team attended a one day training session before an audit visit to China. This explained the types of issues commonly found among Chinese suppliers.

A two day workshop was held for nine buyers to help them identify health and safety issues at supplier premises in the UK and abroad.

The CSR virtual team received coaching to help them fulfil their new roles.

All buyers have access to a guide on encouraging continuous improvement with suppliers via our intranet site.

Supplier awareness

We seek to raise suppliers' awareness of our human rights standards during on-site assessments. We explain why human rights are important to us and what the assessment is looking for. The suppliers' health and safety officer often accompanies us during the assessment, so they understand any issues uncovered.

When we assess a subcontractor, we take someone from the supplier with us. This helps suppliers understand the risks and how these can be managed.

Environment and our supply chain

We are one of the largest purchasers in the UK, with an environmental influence that extends well beyond that of our own people and workplaces. In recognition of this, and to comply with the ISO14001 standard, we identified procurement as one of eight company activities that affect the environment. We seek to influence the environmental performance of our suppliers and contractors through our purchasing policy.

We collect supplier environmental data and encourage poorer performers to improve. We have adopted a risk-based approach focusing on areas where we can have the greatest impact. Our programme has three strands:

1. Assess suppliers' general environmental policies and procedures. All major suppliers must complete our [environmental impact online questionnaire](#) (GS13) after agreeing a mandatory pre-contract award commitment to work towards continuous improvement, if required. This identifies suppliers who do not have robust enough procedures for managing environmental risks. Improvement actions taken with the supplier are recorded on our database. Their progress is monitored until we believe they have reached the required standard.



2. Manage the environmental impacts of electrical or electronic equipment (EEE). Our pre-contract [product stewardship online questionnaire](#) (GS19) is mandatory for all potential electronic and electrical equipment suppliers. It provides information on materials used and compliance with environmental legislation. The results are used to inform the decisions of our buyers and product managers.

3. Auditing waste management suppliers. All our waste contractors must provide a statement on their waste disposal procedures. Contractors are audited by us (using an external specialist) every year. Progress on any required improvements is monitored by the auditor.

In the 2006 financial year, we assessed 139 product stewardship questionnaires (GS19) and audited 51 waste contractors.

Performance – monitoring and driving environmental improvements

Click on the icons below for data on implementation of our environmental impact process.

Supplier management

BT's chief procurement officer is responsible for our CSR supply-chain programmes and reports to a BT Board member.

Our buyers implement the programmes supported by a procurement CSR manager, product stewardship and waste experts and product managers.

We created a new post with responsibility for our CSR procurement strategy and a CSR virtual team of representatives from across BT procurement. They will work with our buyers on CSR issues.

Supplier recognition

BT was recognised in the Mayor of London's Green Procurement Code for purchasing recycled paper for our whole business. We have now signed up to a higher level of the code.

GeSI initiative

BT is a member of the [Global eSustainability Initiative](#) (GeSI) Supply Chain Working Group. The group is developing a common industry approach to managing labour and environmental issues in the supply chain.

During 2005 the group worked with the Electronics Industry Code of Conduct Implementation Group to develop a joint supplier self-assessment questionnaire. This helps suppliers assess their own environment and labour standards, while raising their awareness of these issues. The group consulted key non-governmental organisations (NGOs), trade unions and suppliers on the development of the questionnaire for the ICT industry. We also launched an e-tool so that results from the questionnaires can be shared between GeSI members online. This will reduce the number of questionnaires that each supplier needs to complete.

GeSI is a collaboration between information and communications technology companies to promote the use of technology for sustainable development. It is supported by the United Nations Environment Programme and the International Telecommunication Union.

Supplier diversity

The business case

Because our customers are so diverse, the issue of diversity is commercially important to us and built into our business objectives. We must understand and align ourselves with our customers if we are to provide a truly global service.



Supplier diversity

We added questions on supplier diversity into our labour standards questionnaire GS18. This will help us build a picture of diversity within our supply chain and understand whether we need to take positive action. The questions are as follows:

- How many employees are there in your company?
- How is your company owned?
- Do you consider yourself to be a Minority Business Enterprise (MBE)?
- Where is your company headquartered?
- Do you monitor the diversity of your workforce relating to ethnicity?
- Do you monitor the diversity of your workforce relating to disability?
- Do you monitor the diversity of your workforce relating to gender?
- Do you monitor the diversity of your workforce relating to age?
- Do you monitor the diversity of your workforce relating to sexual orientation?
- Do you monitor the diversity of your workforce relating to belief?
- Do you monitor the diversity of your supply chain?

Similar questions are included in our supplier survey that assesses how BT behaves as a customer.

Suppliers - Key Performance Indicators

Indicator	Description	Measure	Target
Supplier Relationships	A measure of the overall success of BT's relationship with its suppliers.	The Supplier Relationships measure was 89% during the 2006 financial year.	To run the survey on a bi-annual basis and achieve more than 90%. †
Ethical Trading	A measure of the application of BT's supply chain human rights standard. Δ	During the 2006 financial year there were 230 risk assessments with 100% follow up.	To achieve 100% follow up within three months for all suppliers identified as high or medium risk during the 2007 financial year.

† Next survey due in the 2008 financial year. See archived reports for earlier measures.

Δ risk assessments are based on completed questionnaires

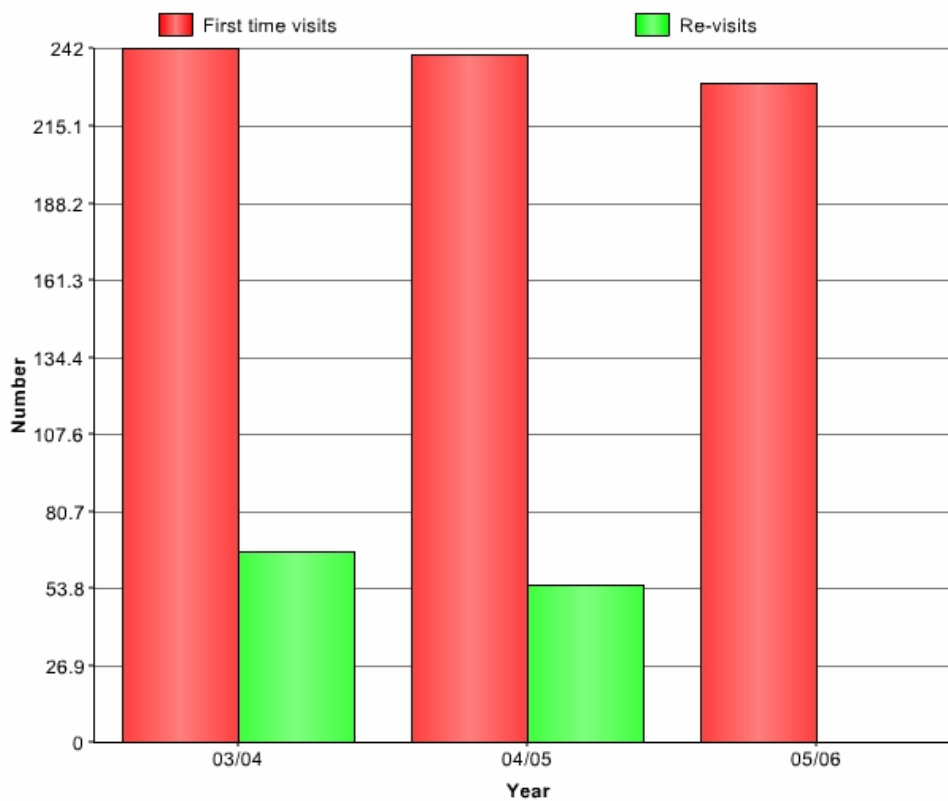
Suppliers Targets

Start Date	End Date	Description	Update	Target Status
April 2006	March 2007	Following analysis of the CSR best practice event, BT will initiate follow through with 5 participating suppliers.		New
April 2006	March 2007	BT will review the results of the 2006 suppliers survey and identify any appropriate follow up actions.		New
April 2006	March 2007	BT will commission an independent report to review the achievements over 5 years of Sourcing with Human Dignity by an independent external organization.		New
April 2006	March 2007	BT will develop a coach approach on labour standards and engage with 2 suppliers.		New
April 2006	March 2007	BT will take follow-up action within 3 months for all suppliers who have been identified as requiring continuous improvement as a result of completing our CSR questionnaires.		New
April 2006	March 2007	BT will take 100% follow-up within 3 months for all suppliers identified as high or medium risk following a GS18 Sourcing with Human Dignity risk assessment.		New
April 2006	March 2007	BT will develop an "Escalator" plan of Sustainability Goals for Procurement in BT, setting out a series of steps over 5 years that will support BT in a leadership position on Sustainability.		New

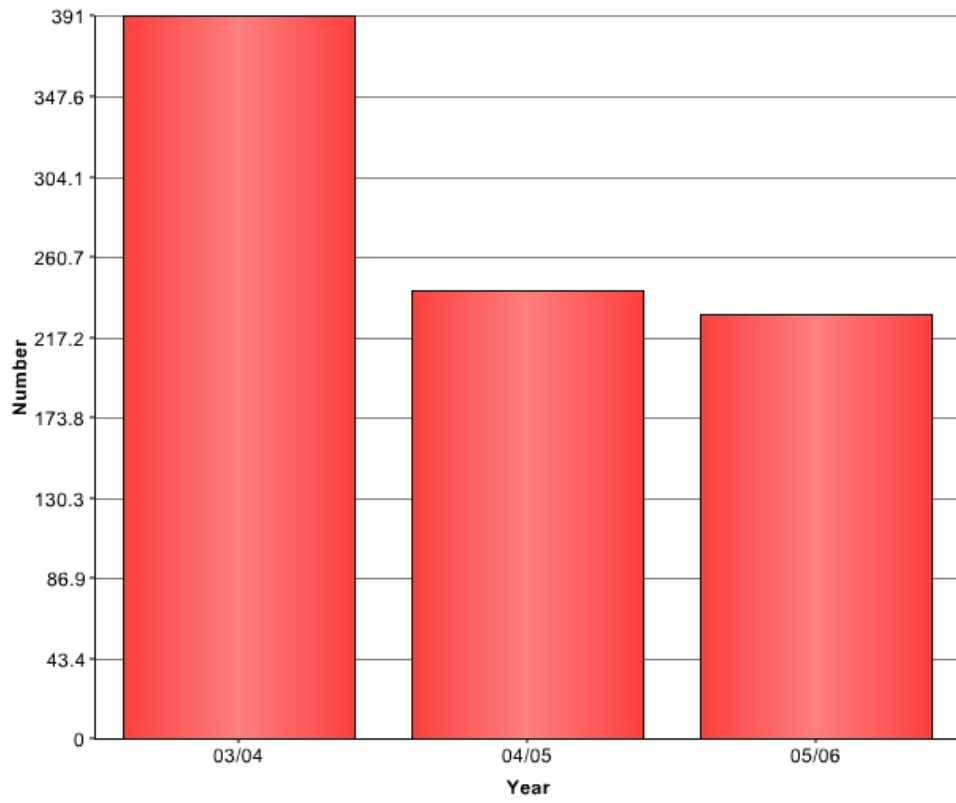


April 2006	March 2007	BT will extend the current Supplier Diversity work with our people providers to include all suppliers of people for permanent contracts. This work will include monitoring and measuring their activities so that we build towards balanced recruitment lists for BT vacancies.		New
April 2006	June 2006	BT will analyse the impact of 2005/6 tier one suppliers CSR best practice event.		New
April 2005	March 2006	There will be evidence that action within three months has been conducted with all contracts identified as high or medium risk following a GS18 Sourcing with Human Dignity risk assessment.	All questionnaires received had follow up action taken within the specified timescales.	Completed
April 2005	March 2006	We will take forward our dialogue with the NGO/Stakeholder community to drive continuous improvement.	Various types of NGO/Stakeholder engagement have taken place throughout the year e.g. working with suppliers to improve environmental performance and labour standards.	Completed
April 2005	March 2006	There will be evidence of follow up action taken within 3 months with all suppliers who have been identified as requiring continuous improvement as a result of completing our CSR questionnaires.	All questionnaires received had follow up action taken within the specified timescales.	Completed
April 2005	March 2006	We will hold a workshop with our Tier One Suppliers to share best practice and drive progress towards our CSR standards.	The event took place on 27th February.	Completed
April 2005	March 2006	We will coach and share best practice with a Tier One Supplier by effecting a joint CSR assessment within the supply chain.	A joint CSR assessment took place in Mexico in August 2005.	Completed
April 2005	March 2006	We will repeat a measure of BT's supplier relationship and achieve more than 90%.	The survey result was 89%, just short of our target.	Failed

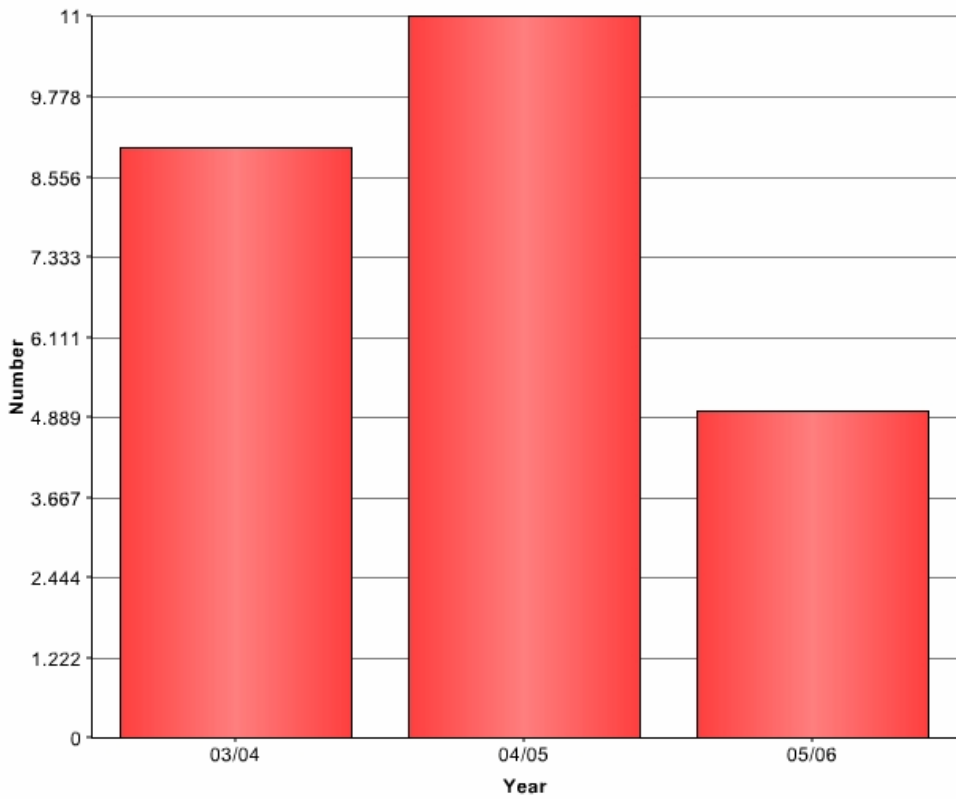
Ethical trading assessment findings



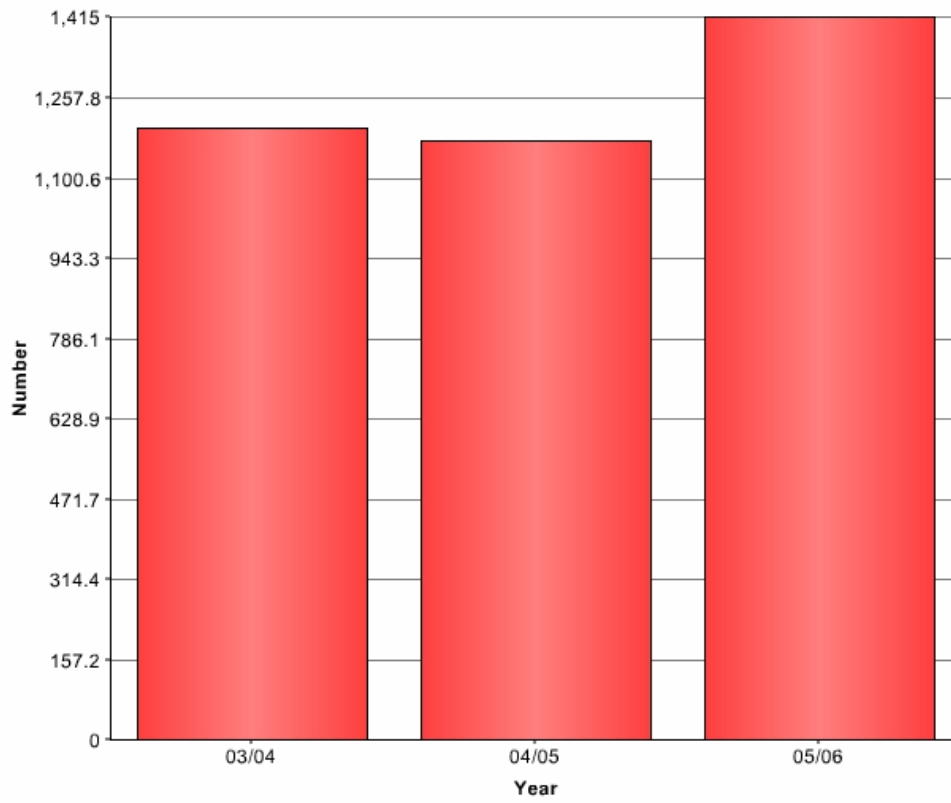
Risk assessment questionnaires



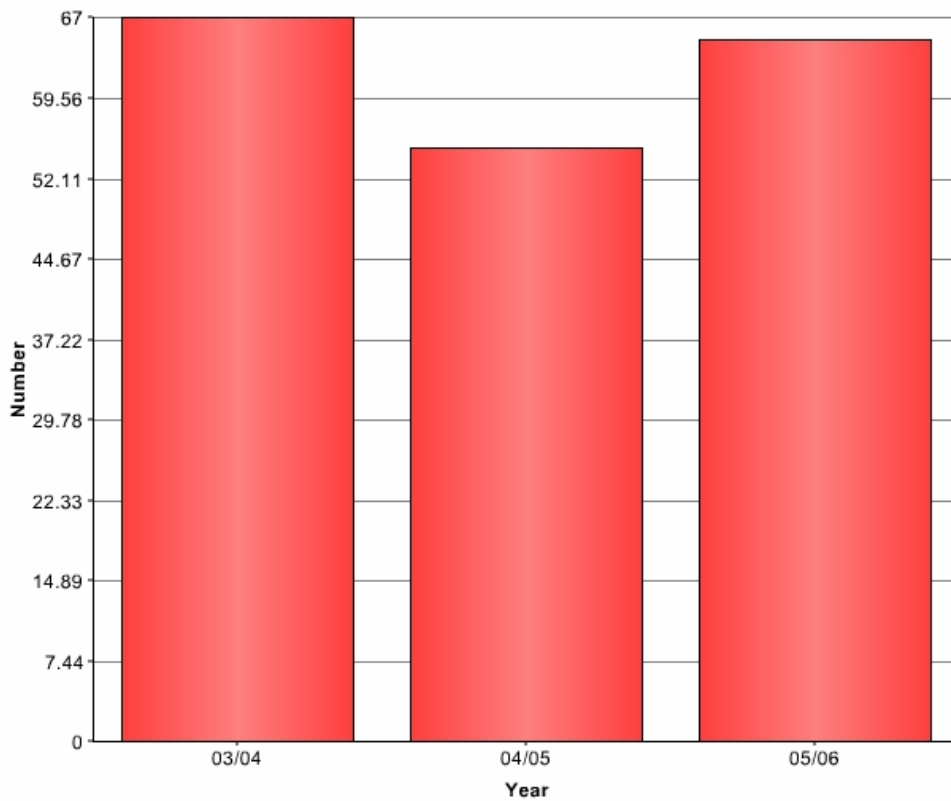
Ethical on-site assessments



Contractors working towards ethical trading



Contracts further investigation



Implementation of GS13 Environmental Impact Process	2003	2004	2005	2006
Number of new BT Contracts	879	1,199	1,175	1415
GS13 requirement included in new BT contracts	879	1,199	1,175	1415
GS13 risk assessment questionnaires requested by BT to be completed by supplier*	70	568	289	395
GS13 risk assessment questionnaire completed	43	410	305	309
Number of questionnaires where continuous improvement was required	18	129	85	105
Number of questionnaires where continuous improvement was being driven	7	131	175	166
Number of contracts where continuous improvement completed	0	33	18	56

*One supplier questionnaire response may cover multiple contracts if for the same environment risk category
In the 2006 financial year, we assessed 139 product stewardship questionnaires (GS19) and audited 51 waste contractors.

Implementation of GS18 Sourcing with Human Dignity Labour standard	2003	2004	2005	2006
Number of new BT Contracts	879	1,199	1,175	1415
GS18 requirement included in new BT contracts	879	1,199	1,175	1415
GS18 risk-assessment questionnaires requested by BT to be completed by supplier*	37	391	243	311
GS18 risk-assessment questionnaire completed	31	242	240	230
Number of questionnaire responses where further action was required	15	67	55	65
Number of questionnaire responses where further action was being conducted		74	106	75
Number where required further action was completed		20	8	21
Number of initial GS18 on-site assessments conducted on high risk contracts	7	9	8	5
Number of supplier identified as falling short of GS18 standard following assessment	7	9	8	Results still being assessed
Number of GS18 on-site re-assessments conducted	7	4	3	0
Number of suppliers who, following re-assessment, have reached the GS18 standards	0	0	0	0
Contracts cancelled due to serious shortfalls persisting against GS18 standard	1	0	0	0

*One supplier questionnaire response may cover multiple contracts if for the same procurement requirement

Blank cells indicate that data was not entered onto the central database that year



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